Rental Housing in the New Economy

July 18, 2013
How many renters are there?

Total Households 1,922,000
- Owner occupied 1,127,000
- Renter occupied 795,000
Cook County Median Household Income

- All households $51,000
- Owner occupied $71,000
- Renter occupied $31,000
## Cook County Rent

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Rent</td>
<td>$1,000</td>
</tr>
<tr>
<td>Income required to make median rent affordable</td>
<td>$40,000</td>
</tr>
<tr>
<td>Renter Households who pay more than 30% of their income in rent</td>
<td>410,000</td>
</tr>
<tr>
<td>Renter Households who pay more than 50% of their income in rent</td>
<td>225,000</td>
</tr>
</tbody>
</table>
## Cook County Rent Burden

<table>
<thead>
<tr>
<th>Income level</th>
<th>Households paying more than 30% of income for housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $40,000</td>
<td>427,000 83%</td>
</tr>
<tr>
<td>Less than $30,000</td>
<td>335,000 89%</td>
</tr>
<tr>
<td>Less than $20,000</td>
<td>230,000 92%</td>
</tr>
</tbody>
</table>
What is “affordable rental housing”? 

• Household pays less than 30% of income for housing.
• Preservation Compact and DePaul use $35,000 household income as a benchmark.
• Roughly 50% of area median income.
The Meaning of “Affordable”

• “Affordable” is NOT a synonym or euphemism for “publicly assisted”
• Most affordable rental units are not publicly assisted.

2009 – Low Cost Rentals in U.S.
• 75% - private, unsubsidized
• 25% - all public subsidies
Who makes $35,000 or less?

- Private school teacher
- Bank teller
- Construction laborer
- Janitor
- Nursing aide
- Truck driver
- Wait staff
- Retail sales person
- Office clerk
Cook County Shortage of Affordable Rental Units

<table>
<thead>
<tr>
<th>Year</th>
<th>Households in Need of Affordable Rental Housing</th>
<th>Supply of Available Units</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>461,000</td>
<td>296,000</td>
<td>165,000</td>
</tr>
<tr>
<td>2009</td>
<td>483,000</td>
<td>303,000</td>
<td>180,000</td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td>224,000</td>
</tr>
</tbody>
</table>
BUILDING NEW RENTAL HOUSING CAN COST AS MUCH AS $300,000 PER UNIT

THE COST OF REHAB DEPENDS ON THE SIZE AND CONDITION OF THE BUILDING, BUT MANY INVESTORS COMPLETE REHAB PROJECTS FOR ABOUT $40,000 PER UNIT
Market Overview

THE GOOD NEWS

• Up:
  – Overall U.S. economy
  – Productivity, Profits, Sales, Stocks
  – Housing starts, Loan originations

• Down:
  – Inventories
  – Foreclosures
THE NOT-SO-GOOD NEWS

• Employment slower to recover
• Unemployment
  – Higher in Midwest < Illinois < Chicago
• Midwest economy slower to recover
• Budget/pension problems in IL, but…
• Midwestern resources flow to Chicago
Chicago:
• Vibrant core, internationally competitive
• Characterized by a divergent economy
• Weak areas:
  – High unemployment
  – Abandonment
  – Foreclosures
  – Population Loss
  – Stagnant values
## Sales price trends for 2-4 unit properties

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>East Garfield Park</td>
<td>$23,663</td>
<td>$305,000</td>
<td>$50,500</td>
<td>-83.40%</td>
</tr>
<tr>
<td>Edgewater</td>
<td>$40,075</td>
<td>$595,000</td>
<td>$306,000</td>
<td>-48.60%</td>
</tr>
</tbody>
</table>
Multifamily CAP Rates

Lincoln Park 4%
Weak, Disinvested Area 16%
<table>
<thead>
<tr>
<th>Area</th>
<th>Change in Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loop and surrounding</td>
<td>+ 21,800</td>
</tr>
<tr>
<td>West Town/Logan Square</td>
<td>+ 2,700</td>
</tr>
<tr>
<td>Lincoln Park/Lakeview</td>
<td>+ 1,600</td>
</tr>
<tr>
<td>Chatham/Woodlawn/South Shore</td>
<td>- 4,800</td>
</tr>
<tr>
<td>Englewood/Auburb Gresham</td>
<td>- 4,600</td>
</tr>
<tr>
<td>Austin</td>
<td>- 2,900</td>
</tr>
<tr>
<td>Overall, City of Chicago</td>
<td>+ 3,000</td>
</tr>
</tbody>
</table>
Things to Keep in Mind

• Growing need for affordable rental housing
• Most privately owned
• Most in buildings with <50 units
• Most in Low/Mod communities that face a number of challenges
• Likely opt-outs in publicly assisted housing in strong areas
Preservation Compact Accomplishments

- 12,000 units retrofitted by Energy Savers – 30% savings
- Property taxes reduced 16% for multifamily housing
- Financing product for 2-4 unit properties – under development
Preservation Compact
Accomplishments

- Worked on preserving nearly 50 government assisted properties
- Joint Compliance—coordinated inspections, documents, processes
- Institute for Housing Studies—data and analysis
- Forum for building owners and public officials
Sessions

Breakout Sessions

• Preservation strategies in strong markets
• Expanding energy retrofits
• Recovering lost rentals in 1-4 unit properties
• Community Development to preserve rental housing

Plenary Panel

• Financing Multifamily Rental Housing
Keynote Address

Richard Florida

• Author of *The Rise of the Creative Class*
• Professor, University of Toronto and NYU
• Senior Editor of *The Atlantic*
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